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THESIS

**CONGRESS, DEFENSE, AND THE DEFICIT:
AN ANALYSIS OF THE FY 1996 BUDGET
PROCESS IN THE 104TH CONGRESS**

by

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December, 1995

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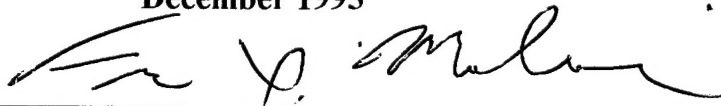
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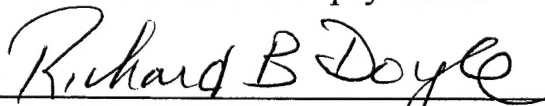
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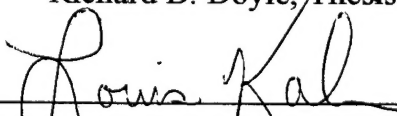


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ABSTRACT

The FY 1996 federal budget process has been distinguished by a series of unprecedented "firsts." The 104th Congress, the first Republican-led Congress in over 40 years, promised to produce a federal budget for FY 1996 that would incorporate significant changes in fiscal policy. Congress intended to balance the budget and eliminate the deficit by 2002, and proposed substantial cuts in entitlement spending in order to accomplish this. Additionally, Congress intended to cut taxes and increase funding for defense. Although the majority party believed that balancing the budget was possible, most students of the federal budget process considered it improbable given the competing objectives and political sensitivities surrounding the methods proposed to achieve this goal. This thesis describes how Congress attempted to achieve its objectives, and evaluates the impact of such an unprecedented economic plan on specific elements of the federal budget. Congress did pass a budget resolution, reconciliation package, and several appropriation bills that reflected a zero deficit by 2002. However, two Continuing Resolutions were required as Congress and the President continued negotiations after reaching an impasse on the FY 1996 federal budget.

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I. INTRODUCTION

The 1995 federal budget process has been highlighted by a series of unprecedented "firsts," and continues to make front page headlines as the 104th Congress attempts to achieve a series of fiscally ambitious goals. This budget is the first to be developed by a Republican-led Congress in over 40 years [Ref. 1], and the majority leadership has been unequivocal in its demand for sweeping change in both fiscal and military policy.

Topping the leadership's priority list is the balancing of the federal budget and the elimination of the deficit by the year 2002. [Ref. 2] Although the majority party believes that balancing the budget within the next seven years is possible, many students of the federal budget process consider it improbable given the competing objectives and political sensitivities surrounding the methods proposed to achieve this goal. [Ref. 3] The task is even more difficult given the majority's additional objectives of increasing defense spending and cutting taxes. The Republican leadership has targeted the rate of growth of entitlement spending for reduction as one of the primary means to finance these initiatives and balance the budget. Although Congress remains wary of tampering with Social Security benefits, it is determined to cut Medicare and Medicaid, the fastest growing of all entitlement spending. [Ref. 4]

In addition to its demand for a balanced budget, the House majority included in its "Contract with America" an insistence on the "restoration" of military funding. [Ref. 5] The authors of the "Contract" argued for this increase in DoD spending to improve the

readiness of military forces that had been reduced as a result of the combination of reduced defense spending and increased and unbudgeted spending on "non-traditional" programs such as peacekeeping operations. [Ref. 6]

However, certain congressional budget estimates indicate that if the budget is to be balanced by 2002, cuts in defense over the next six years would have to total at least \$110 billion. This figure assumes that during this six year period income taxes would not be cut and entitlement spending would be reduced. Conversely, if taxes were to be cut and entitlement spending allowed to grow at its current rate, \$520 billion would need to be cut from the DoD budget in order to reach a balanced budget by 2002. [Ref. 7]

These figures indicate that it will be very difficult for Congress to simultaneously eliminate the deficit, increase the defense budget and cut taxes. By tracking the FY 1996 budget through the congressional budget resolution, authorization, appropriation, and reconciliation processes, this thesis will describe how the 104th Congress attempts to resolve these differences, and will evaluate the effect and influence of the budget process on DoD funding levels ultimately recommended by Congress.

The thesis is organized into three parts. Part 1 provides the essential political background that distinguishes this year's budget debate from any of its predecessors. Within this section, Chapters II and III review the politically significant issues influencing the 1995 budget, including the balancing of the budget, reduction of entitlement spending, increasing military spending, and cutting

taxes. Chapter IV discusses the economic and budgetary implications of a balanced budget.

Part 2 provides an analysis of the specific elements of the FY 1996 budget, with an examination of the contents and substance of the budget package as it progresses through the various congressional budget processes. Chapter V compares the House and Senate budget resolutions, Chapter VI assesses the differences between the House and Senate Authorization and Appropriation legislation on defense spending, and Chapter VII evaluates reconciliation. The final section (Chapter VIII) provides an evaluation of the FY 1996 budget in terms of meeting the goals that the 104th Congress specified at the beginning of the budget process.

This thesis is based primarily on information derived from hearings in the respective committees and subcommittees of the House of Representatives and the Senate, along with House and Senate bills, reports and final conference agreements comprising the FY 1996 budget. Supplemental information supporting the research includes publications from the Congressional Budget Office, Congressional Research Service, and Office of Management and Budget publications, as well as DoD budget policy and planning documents and relevant professional periodicals and news briefs.

This study serves as a comprehensive record of the development of the FY 1996 defense budget. The thesis should be of particular significance and benefit to all faculty and students interested in public policy and budgeting, and to any Department of Defense personnel involved with the DoD budget process.

II. THE FEDERAL DEFICIT AND ENTITLEMENT SPENDING

Public opinion polls throughout the 1994 congressional election campaign indicated that the American electorate demanded above all else a solution to the "fiscal disorder" of the federal budget. [Ref. 8] Not surprisingly, a majority of the victorious candidates centered their campaign platforms around the achievement of this goal. Subsequently, since its first session in February 1995, the 104th Congress has proclaimed the elimination of the deficit and balancing of the federal budget by the year 2002 to be its number one priority.

The Republican leadership has favored cuts in both mandatory and discretionary spending, to include a reduction in the growth of Medicare and Medicaid entitlement programs, in order to finance the almost \$1.2 trillion in spending reductions required to eliminate the deficit over seven years. [Ref. 9] Although congressional Democrats acknowledge that deficit control is the central and most influential issue on Capitol Hill today, they offered no budget plan to eliminate the deficit.

The Democrat's reluctance to provide alternative solutions is rooted in the traditionally more liberal principles of responsibility to social welfare, and subsequent adversity to reductions in entitlement programs. With such strong reluctance to limit entitlement spending, and following eight years of deep budget cuts in the Department of Defense (DoD), the Democrats have been hard pressed to identify other programs to cut in order to balance the federal budget.

A second, yet equally controversial issue of the 1994 election debate involved the role of U.S. armed forces in non-traditional "peacekeeping" operations. The Republican leadership has argued that the Clinton administration has strained DoD financial and physical resources with its involvement in several United Nations-sponsored operations, such as Rwanda, Bosnia, and Haiti. They cite DoD's request for supplemental appropriations in 1994 and 1995, and highly publicized press reports of deficiencies in military readiness and training, as evidence of this military overextension. As a solution, the majority party has demanded a reevaluation of the involvement of U.S. forces in U.N. activities, and has advocated an increase in military spending to prevent the development of an inadequately trained, equipped, and funded "hollow force." [Ref. 10]

A third prevalent but less controversial issue of the 1994 campaign involved income tax reductions. Although both Democrats and Republicans favor reductions, the two parties differ regarding the size and identity of the recipients of the tax breaks. The Clinton administration supports tax relief primarily benefiting middle income families with children in college. The Republicans, however, have advocated a more robust tax reduction package, and have recommended a wide variety of cuts in personal, small business, and corporate income taxes. The majority party maintains that it can still balance the budget by 2002 because the levels of reduction in entitlement spending that it recommends would more than offset the decrease in federal revenues resulting from its proposed income tax reduction package. [Ref. 11]

This chapter evaluates in more detail two of the four popular political issues that have impacted the FY 1996 budget debate more than any other - the federal deficit and entitlement spending. The next chapter examines the two other influential issues, DoD spending, and income tax reform, more closely. The following discussion of the origins of the federal deficit, and an evaluation of some of its probable causes, will highlight the inextricable relationship between the current deficit and entitlement spending. Further analysis of the relationship between entitlements and DoD spending and federal revenues will demonstrate the significant and growing influence entitlement spending holds over all other components of federal budget.

A. THE FEDERAL DEFICIT

Deficits occur when the government spends more money in a year (outlays) than it receives in revenues. To compensate for this overexpenditure, the government borrows money by selling securities to investors who earn interest. The debt is the total amount of money the government owes to these investors, that is, the total amount of annual deficits the government has not repaid. When, for example, the government generated a deficit of \$203 billion in FY 1994, it added that much to the federal debt, which now totals about \$3.6 trillion. [Ref. 12]

Between 1789 and 1932, the federal budget was balanced the majority of the time, with deficits typically arising only as a result of the country's involvement in a major war. Between 1932 and 1995, however, the federal budget has been balanced only eight

times, the last year being 1969. [Ref. 13] Since that time, neither major macroeconomic events (i.e., recessions) or geopolitical crises (i.e., major or minor wars) seem to have had a significant impact on the federal budget.

Nevertheless, there has been recent limited success in controlling the growth of the deficit, resulting from a combination of spending cuts, tax increases, and a strong economy. The deficit was reduced by nearly \$100 billion to approximately \$200 billion between 1992 and 1994, and is expected to remain at that level through 1998. However, the Congressional Budget Office (CBO) projects that between 1996 and 2005 the deficit will more than double to approximately \$460 billion. The ratio of the deficit to the gross domestic product (GDP) is expected to climb from 2.6 percent to 4.0 percent during the same period. [Ref. 14, p. 19]

The fact that there has been only modest improvement in the deficit in recent years, and that the level is expected to soon increase despite earnest attempts to prevent such an occurrence, suggests that the deficit is probably what Allen Schick describes as "structural," existing as a result of some inherent fault in the federal budget process. [Ref. 15] Failing to recognize such deficiencies, however, Congress has unsuccessfully attempted to cope with the nagging deficit problem over the last twenty years through a series of federal budget policy and procedural changes. Provided below is a brief description of these attempts.

1. Congressional Budget Act of 1974

In 1974, the 93rd Congress passed the Congressional Budget Act. This act established the formal budget process in effect today that allows Congress to coordinate its own spending and taxing decisions. Specifically, the act created the Senate and House Budget Committees with the responsibility for developing budget resolutions. To assist these committees and the rest of Congress, the act also established the Congressional Budget Office (CBO) to analyze economic conditions and budgetary alternatives. [Ref. 16]

2. Balanced Budget and Emergency Deficit Control Act

In 1985 the Budget Act was amended by the Balanced Budget and Emergency Deficit Control Act (popularly known as the Gramm-Rudman-Hollings Act). This amendment provided for the elimination of the federal deficit over 5 years. If spending during a year exceeded the annual target deficit by more than \$10 Billion, an across-the-board cut (sequester) would be levied against all eligible spending accounts. In 1987, the GRHA was revised to allow for the elimination of the deficit by 1993. [Ref. 16]

3. Budget Enforcement Act

The Budget Enforcement Act (BEA) was passed in 1990. This act suspended the GRH sequestration policy, and instead of trying to eliminate the deficit, the BEA attempted to reduce it through a new policy of spending control. The act established spending caps for defense, international, and domestic programs in order to reduce the deficit. These separate caps applied through FY 1993, to be replaced

by a combined cap on all discretionary spending for FY 1994 and FY 1995, as stipulated in the BEA. In 1994 Congress extended this combined cap through 1998. [Ref. 17]

The BEA allowed for "deficit neutral" or "pay-as-you-go" (PAYGO) policies for entitlement spending and taxation.

Specifically, Congress could not authorize an increase in spending on a specific entitlement program, or create a new program, without offsetting that increase by an equal cut in another entitlement program or an equivalent increase in taxes. Similarly, Congress could not legislate a reduction in certain income taxes without increasing taxes in another area.

4. The Balanced Budget Amendment

Devised in 1995 by the leadership of the 104th Congress, this amendment to the Constitution would have required the federal budget to be balanced by 2002 or seven years after enactment, whichever was later. [Ref. 5] Despite strong support in the House, the amendment was narrowly defeated in the Senate. The 104th Congress remains determined, however, to honor the objectives and spirit of the amendment by balancing the budget within seven years through the regular budget process.

Schick describes these attempts by Congress to modify the federal budgeting process as indicators of procedural deterioration of that process, resulting from the large and chronic deficits. The deficits, he explains, are a consequence of the history of programmed growth in spending accompanied by sluggish economic

growth, and a combination of Congress's support for entitlements and resistance to taxes. In an attempt to control deficit spending, Congress has in turn adopted a policy of improvisational, ad hoc budgeting.

B. ENTITLEMENTS AND THE DEFICIT

Entitlements are legal obligations created through legislation that require the payment of benefits to any person or unit of government that meets the eligibility requirements required by law. [Ref. 18]. The era of modern entitlements began in 1930's with President Roosevelt's "New Deal," which transformed the government's primary role in domestic affairs from tax collector to a stabilizer and redistributor of private income. The first entitlement program, the Railroad Retirement, was passed in 1934. Since that time the number of entitlement programs has increased to over twenty [Table 1], with the largest three, Social Security, Medicare, and Grants to States with Medicaid, accounting for approximately 70 percent of all entitlement spending.

TABLE 1. MAJOR ENTITLEMENT PROGRAMS, FY 1992 (\$ in thousands). From Ref. 19

Program	1992 Outlays	Cumulative % of Total Entitlements
1. Social Security	284,558,211	40.2
2. Medicare	128,260,811	58.3
3. Grants to states with Medicaid	68,254,000	67.9
4. Civil Service retirement and disability fund	34,307,000	70.8
5. Unemployment trust fund	32,763,975	77.8
6. Military retirement fund	24,444,000	80.8
7. Food stamp program	22,442,702	84.0
8. Supplemental security income program	16,426,000	86.3
9. Veteran's compensation and pensions	16,047,086	88.6
10. Family support payments to States	14,968,000	90.7
11. Commodity credit corporation	11,852,200	92.4
12. Earned income tax credit	6,694,000	93.3
13. State child nutrition payments	5,983,000	94.2
14. Railroad retirement	4,070,600	94.8
15. Government payment for annuities, employees health benefits	3,685,000	95.3
16. Guaranteed Student loans	3,566,900	95.8
17. Social services block grant	2,800,000	96.2
18. Payments to states for foster care	2,563,000	96.5
19. Rehabilitation services and disability research	2,029,585	96.8
20. Environmental conservation acreage reserve program	1,797,915	97.1
21. National service life insurance fund	1,323,350	97.3
Twenty-one largest programs	688,807,335	97.3
Total entitlement and other mandatory spending outlays	708,236,169	100.0

Between 1950-1970, entitlement spending grew faster than any other component of the federal budget. By 1974, the year Congress adopted the Congressional Budget Act, mandatory spending actually exceeded discretionary spending. [Ref. 20] Entitlement growth continued through the 1970's and 1980's. In 1993 Social Security, the largest entitlement program, exceeded defense, the largest discretionary program, as the largest single spending program in the federal budget. [Ref. 20] In 1995 entitlement spending accounted for 50 percent of total federal outlays, with the remaining spending distributed between DoD, at 19 percent, other discretionary at 17 percent, and interest on the debt at 15 percent. [Ref. 14]

CBO anticipates that the two largest health care programs, Medicare and Medicaid, will continue to grow faster than the GDP, as they have since they were created in the mid-1960's. Each program, in fact, is expected to grow more than nine per cent a year for the next five years--far faster than federal revenues. Outlays for Medicare and Medicaid programs are expected to climb from 3.6 percent of GDP in 1994 to 6.2 percent in 2004. After 1998, when the caps on discretionary spending expire, the drop in discretionary spending (in relation to GDP) will no longer be enough to outweigh this steady rise in health care spending. At this time CBO estimates the deficit will once again start to climb as a percentage of GDP. [Ref. 14]

Entitlement spending's influence on the federal deficit has been acknowledged by most professional budget analysts, including Aaron Wildavsky, who believes budgeting and entitlement to be

“incompatible concepts,” explaining that “entitlements, when taken together, without a corresponding willingness to raise taxes, broke the back of classical budgeting”. [Ref. 18, p. 260] With entitlements growing twice as fast as the rest of the budget, and two-and-a-half times faster than the GDP, Congress’s budgeting flexibility and fiscal responsibility have been severely limited.

Wildavsky identifies the growth in the number of beneficiaries (“uptake”) and the policy of entitlement “indexing” (the tying of the benefit payment to a measure of price change, such as the Consumer Price Index) as the primary causes of this entitlement growth.¹ [Ref. 18, p. 260] Other significant causes of growth include the increase in claims against Medicare and Medicaid, and the average growth of Social Security. CBO estimates that 1996 entitlement spending will increase by approximately \$56 billion [Table 2], with Medicare and Medicaid accounting for the lion’s share of the increase.

¹In 1988, about 30 percent of federal spending was indexed, as were nearly 90 percent of benefit payments received by individuals. [Ref. 18, p. 277]

Table 2. FY 1996 INCREASES IN ENTITLEMENT SPENDING. After Ref. 9

<u>Increases</u>	<u>Billions of current dollars</u>
Growth in caseloads	15
COLA Assessment (Indexing)	10
Medicaid and Medicare Increases	20
Average Growth in Social Security	6
Automatic increases in other benefits	5
Total	\$56 B

The current budget process actually incorporates an explicit bias toward entitlement programs and against discretionary spending and is programmed for growth. Most of the growth in federal spending that contributed to the rise of the deficit during the 1980's and early 1990's is accounted for by entitlement programs. Doyle explains the significance of these developments, which are also illustrated in Table 3:

The CBO expects entitlement spending to increase by 96 percent during the decade of the 1990's, its share of total spending jumping from 48.1 percent to 59.7 percent. As a percent of GDP, entitlements will grow almost two points, from 11.2 to 13.1. Discretionary spending, by contrast, will grow only 13.1 percent in this decade. Its share of total spending will fall sharply, from 40.2 percent to 29.0 percent, and its share of the GDP will drop three full points, from 9.4 percent to 6.4. Measured as a share of GDP, the drop in discretionary spending is greater than the increase in spending for entitlement programs. [Ref. 20, p. 17]

Table 3. SPENDING AND TAXING TRENDS, 1980-2000
(outlays in billions of current dollars). From Ref. 21

	1980 (FY 1981)	1990 (FY 1991)	% Increase 1980-1990	2000 (FY 2001)	% Increase 1990-2000
Total Spending	678.2	1323.8	95	2084	57
% of GDP	22.9	23.3		21.6	
Entitle- ments	340.6	634.2	86	1245	96
As % of total spending	50.2	48.1		59.7	
As % of GDP	11.5	11.2		13.1	
Discretion- ary	308.2	534.8	74	605	13.1
As % of total spending	45.4	40.2		29.0	
As % of GDP	10.4	9.4		6.4	
Revenues	599.3	1054.3	76	1787	69.5
As % of GDP	20.2	18.6		18.8	
Deficit	79.0	269.5	241	297	10.2
As % of GDP	2.7	4.7		3.1	

1. Misperceptions About Entitlements

Wildavsky suggests that lawmakers have been hesitant to curtail entitlement growth for "legitimate policy reasons...of efficiency, or the political difficulty of alternatives, or the desire to keep promises that are made." [Ref. 18, p. 269] Undoubtedly, politicians are hesitant to cut entitlements for fear of losing votes from their constituents during the next election. But it is the need to change the public's many misperceptions about entitlements, particularly the belief that Social Security and Medicare are an earned right and owed to individuals following their years of contributions, that makes cutting the programs so politically unpalatable. Pete Peterson explains the reality of the situation:

Most currently retired Americans receive Social Security benefits that are two to five times greater than the actuarial value of prior contributions, by both employer and employee. The payback for the Medicare Hospital Insurance program is five to twenty times greater. A typical middle income couple who retired in 1981 have already received back, with interest, not only the actuarial value of their previous Social Security and Medicare taxes but also *the total value of their lifetime Federal income taxes*. [Ref. 3, p. 82]

Another popular misconception that must be reversed if lawmakers are to overcome their apprehension of reducing mandatory spending is that most federal social spending goes to the poor or underprivileged. This is not the case. Although today's entitlements prevent some 20 million Americans (half of them elderly) from falling into poverty, only about one out of eight federal

dollars of social spending serves to lift poor families above the poverty line. In 1991 nearly half of all entitlements went to households with incomes over \$30,000. One quarter went to households with incomes over \$50,000. [Ref. 3, p. 82] The public's lack of awareness of statistics like these has until recently inhibited the politicians from seriously considering substantial entitlement reform.

III. DEFENSE SPENDING AND TAX REFORM

This chapter evaluates the role of two additional issues influencing this year's budget debate, defense spending and tax cuts. Although the amounts of federal revenues and outlays associated with these issues are not nearly as significant (relative to GDP) as entitlements, they nonetheless play a substantive role in this year's federal budget process and debate.

A. DEFENSE SPENDING

The public's awareness of potential economic problems associated with the federal deficit became much more acute in the late 1980's, coincidently with the dissolution of the Soviet Union. Popular opinion at that time maintained that the U.S. armed forces need not be nearly as massive, in that the threat of war with the Soviet Union had crumbled with the Berlin Wall. Some in Congress argued for larger cuts in defense spending as a result of these changes.

1. Recent History

Although in 1989 President Bush had demonstrated a willingness to subordinate defense spending requirements to a deficit reduction program, President Clinton put defense savings at the heart of his deficit reduction plan. The Clinton economic recovery program included more than \$700 billion in deficit reduction for fiscal years 1994-1998, but proposed new spending for economic stimulus and investment programs lowered the net

deficit reduction total to less than \$500 billion. Defense spending cuts and tax increases provided nearly three-fourths of this planned deficit reduction package. [Ref. 22, p. 100]

Over the last several years DoD has absorbed the bulk of federal budget cuts that have been required to reduce the deficit. The defense budget has been reduced to its lowest level as a share of GDP and federal outlays since the military stand-down immediately following World War II. Today many lawmakers consider DoD to be inadequately funded and unable to successfully fulfill the many unique responsibilities delegated to it by the President.

2. Peacekeeping Operations

The Clinton administration has further constrained defense spending with the involvement of military forces in several U.N.-sponsored peace-keeping activities, including the former Yugoslavia, Haiti, and Somalia. In FY 1994, total DoD commitment of resources to peacekeeping operations was over \$1.4 billion. [Ref. 23, p. 51]

Although these "nontraditional" military operations have been unplanned by DoD, they have been financed in most cases with money appropriated to the fastest-spending (and most available) DoD accounts - Operations and Maintenance (O&M) and Personnel. [Ref. 23, p. 49] The O&M accounts have been so constrained that on more than one occasion over the last two fiscal years, DoD has been forced to request supplemental appropriations from Congress in order to finance its daily operations. [Ref. 24]

3. Other "Nontraditional" Defense Spending

The constraints on the DoD budget have been amplified in recent years by the growth in spending on additional "non-traditional" defense items. Table 4 identifies these programs and their related expenses between 1990-1993. During this time (a period of real cuts in the total defense budget), funding for several categories of such activities had grown, particularly environmental cleanup programs. The Clinton administration is determined to continue funding these programs, despite their continued significant cost growth. The President plans to spend over \$28 billion on "environmental activities" alone through the end of the decade. [Ref. 25, p. 178]

Using DoD accounts to finance peacekeeping and other "nontraditional" activities and the subsequent requests by DoD for supplemental funds to maintain readiness has the new congressional leadership concerned about the military's operational effectiveness. The popular perception on Capitol Hill of the armed forces' lack of "readiness" and inadequate "training," and more recently of its potential slowdown in weapons modernization and procurement, has led many Republican leaders to believe that DoD is on the verge of another "hollow force," similar to the one in existence in the late 1970's.

TABLE 4. "NONTRADITIONAL" DEFENSE SPENDING, FISCAL YEARS 1990-1993 (In billions of 1995 dollars of budget authority). After Ref. 26

	1990	1991	1992	1993
DoD Environmental Activities	1.6	2.8	4.0	5.3
Defense Conversion and Dual-Use Technology	.6	.7	1.2	2.9
Drug Interdiction and Counterdrug Activities	.5	1.2	1.3	1.2
Former Soviet Union Threat Reduction	0	0	.2	.4
Humanitarian Assistance	*	*	.2	.2
Other Miscellaneous #	.8	1.0	1.2	1.3
Total	3.5	5.7	8.0	11.2

* Less than \$50 million.

This category includes a number of small programs that are financed primarily in the Operation and Maintenance Title, such as funding for the summer Olympics, World Cup Soccer, disaster relief, and a variety of museum projects.

4. Looking Ahead

In order to prevent this development, House Republicans of the 104th Congress pledged in their "Contract with America" to provide for the "...restoration of the essential parts of our national security funding to strengthen our national defense and maintain our credibility around the world." [Ref. 10] Although the authors of the contract provided no specifics about how such a "restoration" was to be financed, their apprehension of the military's involvement in "non-traditional" missions, and of the financing for "non-military" programs from DoD accounts, indicates some reduction in both activities as a possible starting point for savings.

Despite these recent congressional promises, not all are optimistic about the possibility of increased defense funding in the near future. Defense budget expert Dennis Ippolito estimates that DoD appropriation levels will remain low for the next several years due to the entitlement "spending dynamic." He argues that with the expected continued high rates of growth for entitlements, especially Medicare and Medicaid, the relative size of discretionary spending will continue to decline. Ippolito aptly summarizes:

The spending constraints affecting defense, therefore, include the indirect effect of entitlement program growth, as well as the direct effect of competition with discretionary domestic needs. Indeed, the fate of the defense budget seems inextricably linked to the future course of entitlement policy. [Ref. 22, p. 112]

Recent CBO reports support his argument. CBO estimates that between FY 1990-FY 1999, the cumulative real growth in spending

for mandatory and domestic discretionary programs will be 38 percent and 12 percent respectively, while defense outlays will decrease by 35 percent. [Ref. 27]

B. TAX CUTS

Both Democrats and Republicans acknowledge that the incomes of many middle-class Americans have remained stagnant or have even declined in the last 15 years, despite the relative growth in the economy. From 1980-1993, real incomes of the middle one-fifth of households rose by less than 1 percent, an average of under \$200 each. [Ref. 28] In order to ease the burden on the lower-middle-class American families, the Clinton administration sponsored and Congress approved an increase in the amount of the Earned Income Tax Credit (EITC) in 1993.

1. Clinton Administration Tax Cut Proposals

Inspired by the recent reductions in the deficit, President Clinton has proposed an expanded package of tax cuts for the middle class in FY 1996. The package includes a number of provisions, including a \$500 per child tax credit for middle-income families with children under 13, expanded eligibility for Individual Retirement Accounts, and a tax deduction for the costs of college, university, or vocational education. The President proposes to finance these tax breaks, estimated to total over \$63 billion over five years, by the reduction or elimination of over 130 federal programs valued at over \$144 billion. [Ref. 28]

2. Republican Tax Cut Proposals

The Republicans also support a package of tax cuts, but of more substance than that of the President. In addition to a series of individual and family tax provisions similar to Clinton's proposal, the House Republicans have advocated a capital gains tax cut and certain tax breaks for small businesses. These tax reduction proposals, valued at almost \$190 billion over five years, would be paid for by \$100 billion in cuts in discretionary spending programs, reductions in spending on Medicare, and an increase in pension contributions required of federal employees. [Ref. 11]

3. Controversy Surrounding Tax Proposals

Both sets of tax cuts have sparked controversy within and between parties on Capital Hill. Some Democrats feel that the Republican tax breaks are too extensive, and complain that even the cuts proposed by Clinton are to be financed through cuts in entitlement programs. Many Republicans argue that legislation reducing taxes should not be enacted until after the CBO certifies that Congress's spending cuts would actually balance the budget by 2002. Furthermore, they contend that any tax cuts should be paid for by additional economic benefits resulting from the implementation of such a deficit reduction plan (i.e., reduction in debt interest payments and increased revenues due to economic growth). [Ref. 11]

The nature of this year's budget debate, therefore, is such that any discussion of tax cuts cannot be made without considering their impact on both the balancing of the budget and projected cuts in spending, especially entitlement cuts. The next chapter provides a

brief discussion of the economic and budgetary implications of a balanced budget.

IV. ECONOMIC and BUDGETARY IMPLICATIONS of A BALANCED BUDGET

Most economic analysts agree that a balanced budget by 2002 would yield a "fiscal dividend" through the reduction of federal interest rates and an increase in federal revenues. In fact, CBO estimates this dividend could total approximately \$170 billion over seven years. [Ref. 14] But the economic attractiveness of a balanced budget often upstages the means through which such an ambitious goal is achieved. The requirement for reductions in mandatory and discretionary spending and a long-term conservative fiscal policy will make it difficult for the 104th Congress to keep its pledges regarding defense spending and tax reform intact. This chapter briefly discusses the advantages associated with a balanced budget, and highlights various federal spending options that face the 104th Congress as it develops a plan to fulfill this goal.

A. ADVANTAGES OF A BALANCED BUDGET

Theoretically, real gains towards reducing the deficit and balancing the budget would represent a reduction in the government's need to borrow money. This decrease in the government's competition for funds in private capital markets would lower interest rates. Savings would result from reductions in both long and short-term interest rates. CBO estimates long-term interest rates could drop by 1-2 percentage points. The reduction in short term rates, however, is more difficult to estimate because these rates are more closely linked to the monetary policy of the Federal Reserve Board. Nevertheless, lower interest rates represent

a reduction in the cost of federal payments for interest on the debt.
[Ref. 14]

CBO contends that growth in the GDP will continue at 2.4 percent through 2005, provided policy changes necessary to balance the budget do not fall especially hard on private saving or public investments. But a balanced budget by 2002 could allow the economy to grow moderately faster (about .1 percentage point a year) by redirecting resources away from public and private consumption and toward investment. Additionally, a stronger economy represents an increase in federal revenues (i.e., income, corporate, and FICA taxes), less reliance on foreign loans, and subsequent lower interest payments to service the debt owned by foreigners. [Ref. 14]

Neither lower interest rates nor increased growth are guaranteed to result from the deficit reduction process. There still remains great uncertainty among economists about how balancing the budget directly affects capital markets and growth. Additionally, although relatively stable, the U.S. economy remains unpredictable. The potential for runaway inflation, or an unexpected recession, always exists. Finally, the success of the balanced budget initiative depends on the monetary policies enacted by the Fed to offset the policies of fiscal restraint.

B. FEDERAL SPENDING OPTIONS

CBO estimates that the deficit in 2002, if current policies continue, would be \$322 billion. Federal spending is projected to be \$2.2 trillion, and revenues \$1.9 trillion. Of the \$2.2 trillion in

spending, approximately \$1.3 trillion (or 60 percent) would result from outlays for mandatory programs (mostly for Social Security, Medicare, and Medicaid) and \$626 billion (28 percent) would stem from discretionary spending. Defense spending would represent approximately half of the discretionary amount if current spending patterns persist. [Ref. 9]

If all deficit reductions were to come from spending alone (i.e., without raising taxes), a 13 percent reduction from the projected 2002 level would be required to bring spending in line with revenues in that year. If Social Security outlays were excluded from that base subject to spending reductions, as they have been, the necessary cut in the remainder of the budget would increase to 17 percent. If, in addition to excluding Social Security, defense spending was not increased, but was maintained at real 1995 levels, the reduction in the remainder of the budget to achieve budgetary balance would increase to 22 percent. This base would include all non-Social Security outlays for mandatory spending (to include Medicare and Medicaid) and all nondefense discretionary spending. [Ref. 9]

The figures above demonstrate that it will be extremely difficult for the 104th Congress to balance the budget within seven years, increase defense spending and reduce taxes while not tampering with Social Security. Medicare and Medicaid and nondefense discretionary spending will be forced to absorb the bulk of the budget cuts required to balance the budget by 2002.

Chapters V through VII evaluate the evolution of the FY 1996 budget preparation process, to include budget resolution, authorization and appropriation for defense, and reconciliation. They focus on three areas of interest: entitlement spending (especially Medicare and Medicaid), defense spending, and federal revenues. The next chapter in particular compares the separate House and Senate budget resolutions, and evaluates how the two chambers compromised in these main topics of concern in the concurrent budget resolution.

V. FY 1996 BUDGET RESOLUTIONS

This chapter is divided into two parts. The first part assesses the differences between the House budget resolution, the Senate budget resolution, and President Clinton's second budget proposal. The second part evaluates how the two congressional chambers resolved these differences in their concurrent budget resolution.

The House and Senate budget resolutions set independent targets for new budget authority, outlays, revenues, deficits or surpluses, and the total federal debt from fiscal 1996 through fiscal 2002. In the concurrent resolution, the two chambers compromise, if necessary, and establish mutually agreeable spending targets both for the government as a whole and for broad functional categories. This chapter focuses primarily on deficit reduction, defense and entitlement spending, and the federal revenue portions of the budget resolution.

A. COMPARISON OF HOUSE BUDGET RESOLUTION, SENATE BUDGET RESOLUTION, AND CLINTON'S SECOND BUDGET PROPOSAL

The House budget resolution (H Con Res 67) was adopted May 18 on a nearly party-line vote of 238-193. One Republican voted against the measure and eight Democrats voted for it. The Senate passed its version of the budget resolution (S Con Res 13) May 25 with a straight party-line vote of 54-46. [Ref. 29] In mid-June, President Clinton submitted a second, more aggressive, budget proposal in which the deficit is completely eliminated within ten

years. (The President's first proposal had been criticized by Democrats and Republicans for being "defeatist" in that it did not offer a comprehensive plan to reduce the deficit). Table 5 outlines the savings proposed by these three separate plans, and is followed by an explanation of their contents and a comparison of their differences.

Table 5. Comparison of Federal Savings and Tax Cuts Contained in 1995 House and Senate Budget Resolutions and the Second Clinton Budget Proposal (\$ in Billions).

From Ref. 30

	Total Deficit Reduction	Tax Cuts	Medicare	Medicaid	Discretionary Spending (Defense /Other)	Other Mandatory Spending
House Plan	756	353	288	187	-67.8/192	219
Senate Plan	958	0	256	175	0/190	209
Clinton Proposal	520	105	128	54	3/197	36

1. Total Deficit Reduction

The House budget resolution included a \$756 billion reduction in the deficit over a seven year period. The plan would cut spending by \$1.04 trillion, but that number is reduced by the House's net tax cuts of \$287 billion. Of the House savings, \$256 billion would result from lower interest payments on the national debt. \$146 billion of that would come from an economic "bonus" that CBO has projected would materialize if Congress passed a plan that would actually balance the budget. [Ref. 30]

The Senate deficit reduction plan of \$958 billion represented spending cuts alone. According to the Senate plan, up to \$170 billion

in tax cuts could be authorized only if a deficit reduction plan is enacted and the CBO certified that it would balance the budget by 2002. Clinton's plan would reduce the deficit by \$520 billion over seven years, and by \$1.1 trillion over ten years. Of the seven year savings, \$184 billion would come from lower interest payments on the national debt and \$110 billion would come from the economic "bonus." [Ref. 30]

2. Tax Cuts

The House plan contained \$353 billion in tax cuts, primarily targeted at families and businesses. The plan included a \$500 per-child tax credit to families earning up to \$200,000 a year, as well as reducing individual and corporate capital gains taxes. As previously mentioned, the Senate version did not allow any tax reform unless certain conditions have been met.

President Clinton proposed \$105 billion in tax cuts, including a \$500 per-child credit for families earning up to \$65,000, an education reduction for college and graduate school tuition, and expanded IRA's that would allow couples earning up to \$80,000 and single people earning up to \$50,000 to make tax-deferred contributions. [Ref. 30]

3. Medicare

The House proposed \$288 billion in savings, achieved by reducing the growth rate of the program from 10 percent a year to an average of about 5.4 percent a year. The Senate plan was similar, proposing \$256 billion in savings over seven years, achieved by

reducing the growth rate to 7.1 percent a year.

The Clinton Administration's plan, however, proposed much less savings (\$128 billion) through reductions in Medicare. Additionally, Clinton proposes to combine these cuts with small expansions in health insurance coverage costing about \$28.3 billion. The expansion would include a six-month health insurance subsidy for people who lose their jobs, an expanded tax deduction for the self-employed, and grants to states for care for the elderly and disabled. [Ref. 30]

4. Medicaid

The House and Senate plans proposed \$187 and \$175 billion in savings, respectively, achieved by converting the federal share of the Medicaid program to a block grant and transferring it to the states. Additionally, a portion of the savings would be generated by gradually reducing growth from about 10 percent a year to 4 percent a year.

As with Medicare, the Clinton plan proposed substantially less savings (\$54 billion) than the congressional plans. Clinton would achieve this savings by capping the program's expenditures on a per capita basis. He would also allow states to set-up managed care plans without seeking a federal waiver and to reduce payments to hospitals that have high numbers of uninsured or underinsured patients. [Ref. 30]

5. Discretionary Spending

The Senate resolution proposed no savings for defense, instead incorporating the administration's first proposal of a \$25 billion increase over seven years, which would keep defense spending at or above a "hard" freeze (unadjusted for inflation). The second Clinton plan, however, actually included a net \$3 billion savings in defense in FY 1996. The House version added \$67.8 billion in spending above the Senate's proposed spending level.

Both the House and the Senate proposed approximately \$190 billion in savings in non-defense discretionary spending, measured against a freeze at the 1995 enacted level. President Clinton proposed \$197 billion in savings from this category, advocating cuts averaging 20 percent in all domestic programs, with the exception of a handful of favored administration initiatives that would get a small increase (i.e., education and violent crime control). [Ref. 30]

6. Other Mandatory Programs

Both the House and the Senate favor over \$200 billion in savings from entitlements other than Social Security, Medicare, or Medicaid. Targeted programs include the earned-income tax credit for the working poor, several welfare programs, federal pensions for civilian and military retirees, veterans' benefits, farm subsidies and student loans.

President Clinton proposed to cut \$38 billion from several poverty programs including Aid to Families with Dependent Children, the earned income tax credit, and benefits for immigrants. Other

programs such as farm subsidies and veterans' programs would increase by \$2 billion. [Ref. 30]

B. CONCURRENT BUDGET RESOLUTION

On June 29, after approximately one month of deliberations, the conference report on the budget resolution was adopted in the House on a vote of 239-194 and in the Senate, 54-46. [Ref. 29]

1. Highlights of the Conference Resolution

Highlights of the conference agreement on the budget resolution include \$894 billion in total deficit reduction, \$182 billion in Medicaid savings, \$270 billion in Medicare savings, a \$58 billion increase in outlays for defense spending, and \$175 billion in savings in the category of other mandatory spending. Once CBO validates Congress' claim that it can successfully produce the \$894 billion in spending cuts by 2002, up to \$245 billion in tax cuts can be authorized. [Ref. 29]

The conference report also imposes new caps on discretionary spending from FY 1996 through fiscal 2002, including specific caps for broad categories of defense and non-defense spending through fiscal 1998. The new caps would replace and extend those caps first enacted in the 1990 BEA and amended and extended by the 1993 Omnibus Reconciliation Act of 1993 and the fiscal 1995 budget resolution. [Ref. 31]

The caps would apply to both budget authority and expected outlays for each fiscal year. The caps would apply to both chambers but would be enforceable only in the Senate, and only for fiscal

1996. Any appropriations bill whose total exceeded these targets for FY 1996 would be barred from Senate consideration by a parliamentary point of order. A 60-vote majority would be required to override the point of order. Enactment of a budget reconciliation bill pursuant to the budget resolution would extend Senate enforcement of the caps through fiscal 2002. [Ref. 31] Table 6 shows the new discretionary spending caps.

Table 6. New Discretionary Spending Caps FY 1996-2002 (fiscal years, dollar amounts in billions). After Ref. 32

	1996	1997	1998	1999	2002	2001	2002
Defense							
Budget Authority	265.4	268.0	269.7	-	-	-	-
Outlays	264.0	265.7	264.5	-	-	-	-
Non-Defense							
Budget Authority	219.7	214.5	221.0	-	-	-	-
Outlays	267.7	254.6	248.1	-	-	-	-
Total Discretionary							
Budget Authority	485.1	482.4	490.7	482.2	489.4	496.6	498.8
Outlays	531.8	520.3	512.6	510.5	514.2	516.4	515.1

Table 7 shows the totals projected by the conference report on the fiscal 1996 budget resolution for each year from fiscal 1996 through fiscal 2002. To facilitate comparison, figures are also shown for the House and Senate-adopted versions of the budget. Table 8 displays the House and Senate's initial and final budget authority (BA) and outlay (O) proposals for spending by function for FY 1996.

Table 7. Congressional Budget Totals, FY 1996 - 2002 (fiscal years, dollar amounts in billions). After Ref. 32

	1996	1997	1998	1999	2000	2001	2002
Budget Authority:							
House	\$1,593.6	\$1,645.3	\$1,686.0	\$1,735.6	\$1,774.9	\$1,803.4	\$1,841.1
Senate	1,575.7	1,617.6	1,674.2	1,732.4	1,802.7	1,845.5	1,907.5
Final	1,591.7	1,645.5	1,691.7	1,742.0	1,802.0	1,848.1	1,906.5
Outlays:							
House	1,587.8	1,625.9	1,650.9	1,703.9	1,749.0	1,783.0	1,814.7
Senate	1,575.1	1,603.8	1,644.3	1,707.1	1,775.3	1,820.7	1,884.0
Final	1,587.5	1,626.9	1,661.4	1,718.0	1,778.2	1,821.7	1,876.4
Revenues:							
House	1,432.2	1,450.5	1,511.0	1,569.6	1,641.3	1,722.4	1,815.2
Senate	1,418.0	1,475.9	1,546.9	1,620.7	1,700.9	1,790.9	1,885.3
Final	1,417.2	1,474.7	1,545.6	1,617.6	1,697.4	1,788.6	1,882.8
Deficit /Surplus:							
House	-155.6	-175.5	-139.9	-134.3	-107.8	-60.6	.5
Senate	-157.1	-127.9	-97.5	-86.4	-74.3	-29.8	1.3
Final	-170.3	-152.2	-115.8	-100.4	-80.8	-33.1	6.4

Table 8. Proposed Spending by Function, FY 1996
(fiscal years, dollar amounts in billions). After Ref. 32

Category		House	Senate	Final
National Defense	BA	\$267.3	\$257.7	\$264.7
	O	265.1	261.1	263.1
International Affairs	BA	15.8	15.4	263.1
	O	17.0	16.9	17.0
General Science	BA	16.7	16.7	16.7
	O	16.9	16.7	16.8
Energy	BA	4.4	2.9	4.6
	O	4.3	2.7	4.5
Natural Resources	BA	19.3	19.5	19.5
	O	20.2	20.4	20.3
Agriculture	BA	13.0	13.1	13.1
	O	11.8	11.9	11.8
Commerce/Housing	BA	6.4	6.6	6.7
	O	-7.0	-7.0	-6.9
Transportation	BA	40.5	36.5	36.6
	O	38.8	38.3	38.9
Community Devel.	BA	6.7	5.8	6.6
	O	9.9	9.8	9.9
Education/Training	BA	45.7	49.0	48.4
	O	52.3	52.6	53.4
Health	BA	121.9	121.1	121.0
	O	122.3	121.0	121.1
Medicare	BA	179.1	171.9	176.1
	O	176.8	169.5	173.7
Income Security	BA	222.7	226.3	225.9
	O	225.0	225.9	227.6
Social Security	BA	354.3	354.3	354.3
	O	354.2	354.2	354.2
Veterans' Benefits	BA	37.6	37.4	37.5
	O	36.9	36.9	36.9
Justice	BA	17.8	20.0	19.8
	O	17.8	19.6	18.7
Gen. Govt.	BA	11.6	12.5	12.4
	O	12.4	13.0	12.9
Net Interest	BA	256.4	258.5	258.9
	O	256.4	258.5	258.9

2. The Clinton Proposal

Throughout the process of reaching agreement on the budget resolution, the Republicans dismissed the substance of Clinton's budget and questioned the numbers on which it was based. They charged that the President's plan would come nowhere near balancing the budget when measured against the deficit projections used by Congress. CBO's analysis of the Clinton budget supported the GOP view, indicating that the administration's spending cuts would leave a deficit of \$209 billion in 2005, when Clinton was projecting a balanced budget. [Ref. 30] However innocuous, Clinton's proposal did demonstrate that he had repositioned balancing of the budget to the top of his agenda, and that he was willing to work with the Republican-led Congress towards fulfilling this goal.

3. Looking Ahead

Republicans in both chambers were elated over the initial success of their balanced budget plans. However, the specifics of the resolution have yet to be resolved; these details are to be worked out through the reconciliation and authorization/appropriation processes. Potential issues of internal debate include welfare, Medicare and Medicaid reform and tax cuts. Also, the President's right to veto any appropriation bill with which he is not satisfied represents an additional external pressure on Congress. The Clinton Administration has already expressed dissatisfaction with the (health care) entitlement and defense spending levels proposed in the budget resolution.

The next chapter compares the authorization and appropriation bills for defense spending. Chapter VII evaluates in greater detail the FY 1996 budget reconciliation process, focusing on Medicare, Medicaid, and tax reform.

VI. FY 1996 DEFENSE AUTHORIZATION AND APPROPRIATION BILLS

This chapter focuses on the FY 1996 defense authorizations and appropriations bills, and is divided into two sections. The first compares the House and Senate FY 1996 defense authorization bills, and discusses how each differs from President Clinton's June proposal for defense funding. Both the House and Senate exceeded the defense funding levels requested by the President, but the contents of each chambers' bills were remarkably different. The section concludes with a description of how these differences were reconciled in the conference agreement. The second section of this chapter highlights the 1996 defense appropriation bills, focusing on the appropriations conference report submitted to Congress in late September.

A. AUTHORIZATION BILLS

1. House Authorization Bill

The House National Security Committee (HNSC) approved its defense authorization bill on 24 May by a vote of 48-3. The bill (HR 1530) authorized \$267.3 billion for defense spending, \$9.5 billion more than Clinton proposed. [Ref. 33]

The bulk of this increase (about two-thirds) would be used to fund an accelerated weapons development program, primarily an anti-missile defense system. The remainder would be used to purchase more of certain existing weapon systems. In addition to providing funds for a new navy amphibious ship, two high-speed cargo ships, and 12 Air Force fighters, the bill provides \$553 million

to purchase components for two additional B-2 stealth bombers that would be fully funded in FY 1997. [Ref. 33]

The House bill rejected Clinton's \$1.5 billion request for a third Seawolf submarine, and cut several non-defense related programs. Specifically, the bill cut \$171 million from the \$371 Nunn-Lugar program to help former Soviet republics dismantle their nuclear weapons and weapons infrastructure. It also excluded funding for the Technology Reinvestment Program, a Clinton initiative intended to fund "dual-use" technologies that have both military and commercial applications. [Ref. 33]

The House bill affected several other military-related, but socially controversial issues. One provision of the bill would require that military personnel with HIV be discharged, and another would bar female service members or dependents from obtaining abortions in U.S. Military hospitals abroad. [Ref. 33]

Despite strong debate regarding the funding for the B-2 bomber and the abortion provision, HR 1530 passed on June 15 (300-126) nearly intact. Over the objections of HNSC Chairman Floyd Spence, R-S.C., and his allies, the bill was amended to include a burden-sharing amendment, intended to make U.S. allies in Europe pay for stationing U.S. Forces on their soil, and dropped funding for a \$50 million nuclear reactor opposed by an influential lobby group. [Ref. 34]

2. Senate Authorization Bill

On June 29 the Senate Armed Services Committee passed its defense authorization bill by a vote of 18-3. The bill (S 1026) provided \$264.7 billion for defense, slightly less than the House version but still \$7 billion more than Clinton's proposal. Like the House bill, most of this increase went to weapons procurement and development programs. The committee agreed to add \$770 million to the President's \$3 billion request for anti-missile defense programs, roughly the same increase as the House. However, the House and the Senate panel split sharply over several other major programs. [Ref. 35]

The SASC approved funding for the third Seawolf submarine and for a large Marine amphibious ship with a complement of helicopters. The bill also allotted \$238 million for President Clinton's Technology Reinvestment Program, and almost fully funded the Nunn-Lugar program. Additionally, the committee agreed to fund virtually the entire \$1.6 billion requested by Clinton to clean up toxic and hazardous waste at military installations. However, the SASC rejected the Navy high-speed cargo ships proposed in the House version, and excluded any funding for the B-2 bomber. It also failed to provide funds for additional Air Force F-15 and F-16 fighter jets, funded in the House bill. [Ref. 35]

The Senate passed its defense authorization bill on September 6 by a vote of 64-34, following nearly a month of debate. The final bill authorized \$265.3 billion for defense programs in FY 1996, and was passed only after a compromise on the anti-missile defense system was reached between Senate Democrats and Republicans.

The Democrats were fearful that the initial Republican AMD proposal would violate the 1972 Anti-Ballistic Missile (ABM) treaty with Russia, which required that a U.S. or Russian homeland defense be deployed at a single base. The compromise required that, before a decision to deploy a national missile defense is made, Congress must review the system to ensure that it is affordable and operational. It retreats from the Senate Republican's initial commitment to a multi-site system, but mandates that the ground based interceptors be capable of deployment at several sites. [Ref. 36]

3. Authorization Conference

The authorization conference opened September 7, and was marked by the conferees' inability to reach an agreement on the specific defense programs and levels of funding to be authorized. As of mid-November the conferees had not produced a report. Blame for the indecision has been largely attributed to the chairmen of the authorizations committees. Neither Sen. Strom Thurmond (R-S.C.) nor Rep. Floyd Spence (R-S.C.) have provided much guidance, but have relied on their staffs to drive the process to conclusion. [Ref. 37]

During the second week of the conference, Sen. Sam Nunn (D-GA), ranking minority member on the SASC, declared that unless the Senate's language on anti-missile defense was accepted, the conference would end. That same week, the House voted 415-2, to instruct its conferees to stick by its readiness total of \$94.7 billion and reject the Senate's level of \$91.7 billion (President Clinton had requested \$91.9 billion). [Ref. 38]

The authorizers' failure to come to closure would mark the first time Congress has failed to adopt a defense authorization bill since 1961, when the initial authorization for defense was issued. [Ref. 37]

B. APPROPRIATION BILLS

The individual House and Senate defense appropriation bills were passed quickly in both chambers. The Senate approved its \$242.7 billion appropriations bill (S 1087) on September 5, by a vote of 62-35. By a 294 to 125 margin the House passed its version of the bill (HR 2126) on September 7, recommending \$244.2 billion in appropriations for defense. Both bills closely resembled their respective companion authorization bills in terms of defense programs supported and levels of funding recommended. [Ref. 39]

1. Appropriations Conference

The appropriations conference report reconciling the two bills was completed on September 22, despite the fact that Congress had not completed the defense authorization bill. The report, drafted with relatively little controversy between the two chambers, appropriated \$243.3 billion for defense. This amount is \$868 million less than the House version, \$556 million more than requested in the Senate version, and \$7 billion more than the Clinton request. The last time Congress appropriated more for defense than an administration requested was in 1981 when a new legislature, elected with President Reagan, revamped a budget proposal prepared in the Carter administration. [Ref. 40]

The conference report reconciled several issues that had been highly contested between the House and the Senate, and approved several programs opposed by the Clinton administration. The report approved a total of \$3.4 billion for Ballistic Missile Defense (BMD), including \$746 million for National Missile Defense, a \$375 million increase over Clinton's request. It also approved funding of \$493 million to continue production of the B-2 bomber, and \$470 million for additional Air Force F-15 and F-16 aircraft. The conferees also provided funding (\$700 million) for a third Seawolf submarine, despite initial opposition from the House. [Ref. 38]

The bill cut the amount of funding sought by the administration for the Technology Reinvestment Program by over \$300 million, appropriating only \$195 million, and agreed to fund \$300 million (approximately 80 percent of the Clinton request) to the Nunn-Lugar account to assist Russia in dismantling nuclear weapons. Finally, the report watered down a House provision barring funds for U.S. troop deployments in Bosnia unless the President received congressional approval. The only exception to this provision would have been the use of American forces to evacuate U.N. peacekeepers. The conferees turned that into a non-binding provision expressing the sense of Congress. [Ref. 38]

Table 9 compares the figures for the FY 1996 defense appropriations conference report with the House and Senate appropriation requests, Clinton's request, and the actual FY 1995 defense appropriations.

Table 9. Defense Spending (in thousands of dollars of new budget authority). After Ref. 39

	FY 95 Appropriation	FY 96 Clinton Request	House Bill	Senate Bill	Conference Report
Personnel	71,101,502	68,696,663	69,231,892	68,881,029	69,054,008
Operations and Maintenance	82,819,085	80,800,250	81,483,817	79,940,606	81,552,727
Procurement	43,124,636	38,662,049	42,876,405	44,460,774	44,089,316
Research, Development, and Testing	35,130,599	34,331,953	35,879,560	35,474,024	36,430,109
Related Agencies /Other Programs	12,772,246	13,895,102	14,567,826	13,969,408	12,167,137
Total	245,018,068	236,386,017	244,039,500	242,725,841	243,293,297

2. Appropriations Conference Rejected

The conference report on defense appropriations was rejected in the House on September 29 (151-267). Surprisingly, the rejection was not the result of specific Democratic dissatisfaction with defense programs or funding levels (although in fact two-thirds of the voting Democrats opposed the bill). Rather, it occurred as a result of Republican-led opponents angry that the provision banning abortions on military installations overseas had been dropped from the bill (approximately two-thirds of the voting Republicans opposed the bill on these grounds), combined with Democrats opposed to the level of funding or specific programs in the report. [Ref. 42]

Despite House Appropriations Committee Chairmen Robert Livingston's (R-La.) warnings that any other subsequent version of the bill would undermine the "Contract with America's" pledge to reverse the decline in U.S. military power, most Republicans insisted

that the principle of opposing abortion was too important to be subordinated to practical political considerations. In fact, Robert Dornan (R-Ca.), a leader of the House anti-abortion coalition, was quoted as saying "Saint Peter won't ask me, on judgement day, about the B-2 bomber or my defense votes," but rather about how hard he had tried to protect the lives of the unborn. [Ref. 42]

3. Final Appropriations Bill

By mid-November, the conferees had amended the conference report so that it was acceptable to both chambers. The defense appropriations bill was passed in both the House and Senate on November 16. [Ref. 43]

4. Stopgap Bills

In order to avoid a government "shutdown," congressional Republicans and President Clinton agreed to give themselves a six-week extension past the October 1 start of FY 1996 to get the new year's spending bills complete. During the last week of September, Congress approved a continuing resolution (HJ Res 108) in order to provide stopgap funding through November 13 for programs funded by appropriations bills that Congress had not yet finished. [Ref. 44]

However, on November 13 President Clinton refused to sign a second Continuing Resolution, despite last-minute negotiations with the Speaker-of-the-House Newt Gingrich (R-Ga.) and Senate Majority Leader Sen. Bob Dole (R-Ka). The President adamantly opposed the resolution because it contained a provision that would suspend a planned reduction of Medicare premiums, a highly controversial

issue in congressional reconciliation deliberations. On November 14, the government underwent a "partial shutdown," with all but "essential" federal employees instructed not to report to work.

VII. FY 1996 RECONCILIATION BILL

This chapter evaluates the FY 1996 reconciliation process, in which tax laws and entitlement programs are changed, or reconciled, to achieve the deficit reduction targets set in the FY 96 budget resolution. As specified in this year's resolution, Congress must produce the largest spending cut package in its history, over \$890 billion, in order to meet the targets in the budget resolution.

Unwilling to cut Social Security, Congress turned to the fastest growing entitlement programs, Medicare and Medicaid, to supplement discretionary spending cuts and provide the bulk of the savings. The FY 96 budget resolution directed \$270 billion be cut from Medicare, and \$182 billion from Medicaid. Additionally, the resolution called for a \$245 billion reduction in taxes over the next seven years, following certification of Congress's deficit reduction plan by CBO. In other words, the spending cuts must be achieved prior to implementation of the tax cuts.

This chapter is divided into two parts. The first focuses on the contents of the individual House and Senate reconciliation packages, paying particular attention to each chambers' plans to cut Medicare, Medicaid, and taxes. Although the two proposals generally track each other fairly closely, differences do exist. The second section examines how these differences were settled in the reconciliation conference report approved by Congress, and discusses those issues that were problematic for Congress while attempting to translate the reconciliation bill into law.

A. RECONCILIATION BILLS

1. The House Reconciliation Package

On October 26, the House passed HR 2491, the FY 96 budget reconciliation bill, on an almost party-line vote of 227-203 (ten Republicans voted against the bill, four Democrats voted for it). [Ref. 45] Provided below is a summary of the most controversial and relevant components in the bill, namely Medicare, Medicaid, Earned Income Tax Credit (EITC), and taxes. Also provided is a description of the bill's provision for defense.

Medicare - To reach the total of \$270 billion in Medicare cuts, Republicans recommended a three-pronged approach. The plan would reduce payment rates to doctors and hospitals, increase premiums paid by seniors for the optional Part B insurance that covers doctor care, and rely on beneficiaries to choose managed care or other insurance options. If this approach does not reach the savings targets, a "failsafe" mechanism would cut payments to doctors, hospitals, and other providers in the traditional fee-for-service approach to make up any shortfall.

The Medicare plan would require up front cuts in payments to providers that would account for \$152 billion of the savings. The increase in premium payments, which include an "affluence test" requiring wealthier beneficiaries to pay more, makes up about \$54 billion. Expected migration to alternative insurance plans represents savings of \$31 billion, while the failsafe mechanism accounts for the remaining \$32 billion. [Ref. 46]

Medicaid - The House plan, designed to reduce spending by \$182 billion over seven years, radically restructures Medicaid by ending the federal guarantee of coverage to people who meet certain criteria and by capping the amount of money the federal government provides to the states. Under the plan a lump sum of federal money would be provided to the states to finance health care for the poor. The states would design their own benefit packages and decide who is eligible, but would be required to pay for a percentage of the benefits with their own money. [Ref. 46]

Earned Income Tax Credit - The House plan limits the availability of the EITC for low income workers. The proposal would save over \$20 billion by limiting the availability of the credit and scaling back its size. Workers without children would no longer be eligible. Income eligibility for families is tightened by requiring workers to count Social Security benefits and income from IRAs, pensions and annuities as part of their adjusted gross income. The credit would be phased out starting in 1996 for workers who earn more than \$11,630 a year and for families earning more than \$27,126 a year. Currently, the EITC is available to families earning \$28,553 annually. [Ref. 46]

Taxes - Perhaps the most controversial element of the bill, the recommended tax cut has been described as "a big red pimple on the deficit reduction's handsome nose." [Ref. 47] The House package includes a tax cut for families and businesses of over \$350 billion, over \$100 billion more than permitted in the budget resolution.

Specific decisions about how to change individual's provisions to meet that lower amount has to be worked out in conference.

The House tax bill includes: a \$500-per-child tax credit for families earning up to \$200,000 a year; reduction in the corporate capital gains tax from 35 percent to 25 percent and reduction in the top individual capital gains tax rate from 28 percent to 19.8 percent. Also included in the bill are provisions benefiting corporations costing \$7.9 billion. The bill would also raise about \$40 billion by limiting corporate tax preferences and allowing companies to use excess pension funds for investment. [Ref. 46]

Defense - Directed to come up with \$2.2 billion in savings over seven years, the National Security Committee initially moved to cut the pensions of thousands of retiring military personnel. After intense public pressure, the committee backed down and approved instead legislation to sell excess assets from the National Defense Stockpile. In addition, the House plan advances the date for the COLA increases for military retirees from October to April, the same month civilians receive their increases. Finally, the plan includes the sale of the Naval Petroleum Reserve sites. [Ref. 46]

2. The Senate Reconciliation Package

On October 28, two days after House approval, the Senate passed its reconciliation bill (HR 2491), 52-47 on a party line vote. [Ref. 48] A description of the Senate's version of the major elements of the package is provided below.

Medicare - The Finance committee was more willing than the House to put a significant part of the burden on beneficiaries. This was done chiefly by raising the Part B deductible and by setting lower thresholds for Part B means-testing (\$50,000 in annual income for single beneficiaries instead of the House's \$75,000, and \$75,000 for couples instead of the House's \$125,000).

The Senate plan would also raise the Part B premiums more than the House version. The committee avoided the need for a fail-safe procedure by strengthening its managed care section, primarily by clamping down on the growth of payments for Medicare beneficiaries already in options such as HMOs. [Ref. 46]

Medicaid - The Senate Medicaid plan is different than the House plan in that it actually retains the entitlement for pregnant women, children, and the disabled. The plan would allow states to determine the benefit packages for those groups, but having determined that, would require states to cover all eligible people. Members of the Finance Committee also restored protections to safeguard spouses of nursing home residents against impoverishment and the loss of their family homes, while allowing states to set nursing home standards. The Senate package also uses a different baseline for determining federal funding that gives 27 states more money than under the House plan. [Ref. 46]

Earned Income Tax Credit - The Senate provisions, accounting for over \$40 billion in savings, are similar to the House proposals but have a steeper phase out schedule that essentially

would end the indexing of the credit for inflation for families that earn more than \$11,630 a year. In determining income eligibility, the bill would also require taxpayers to count income from rents and royalties and net capital losses. [Ref. 46]

Taxes - The Senate plan would substantially scale back the House tax cut proposal, aiming the per-child tax credit at families earning less than \$110,000 a year and adding a credit to defray the cost of student loans. The Senate proposal also would provide for a smaller cut in corporate capital gains taxes, IRAs would be expanded more broadly than in the House, and fewer tax provisions benefitting corporations would be ended. [Ref. 46]

Defense - The Senate did not consider a pension change, but rather adopted legislation for the sale of excess stockpile assets and the petroleum reserve at Elk Hills. [Ref. 46]

B. CONGRESSIONAL HURDLES

Despite the fact that CBO certified that both the House and the Senate reconciliation plans would provide budget surpluses in 2002, several hurdles in translating the plans into law still confront the Republicans. [Ref. 49] Chief among these hurdles are the reconciliation conference report, in which the differences in the House and Senate plan had to be resolved,

1. Reconciliation Conference Report

The House-Senate conference on the reconciliation package began the week of October 30. Although the two plans were in general very similar, significant differences (in addition to those already discussed) had to be resolved in conference. A brief discussion of some of these "second-tier" differences follows.

Capital Gains - The House would index capital gains for inflation. That would allow taxpayers to pay taxes only on the difference between the sale price of the asset and the original purchase price, after adjusting for inflation. The Senate has no indexing provision.

Student Loans - The House bill would eliminate the Direct Loan Program, in which the government bypasses commercial banks and other lenders by disbursing aid directly to students. The Senate bill would slow the program's growth significantly but leave it in place. The House also would eliminate the interest-free, six-month grace period currently enjoyed by students who receive federally guaranteed loans and increase the interest rates on loans to parents of undergraduate students. Both provisions were removed from the Senate bill.

Commerce Department - The House measure would dismantle the Commerce Department. A similar measure was approved by the Senate Government Affairs Committee but was not added to the reconciliation bill because it was found to violate rules

designed to thwart provisions unrelated to deficit reduction (the Byrd rule). [Ref. 50]

The reconciliation conference concluded the week of November 14 after the two chambers managed to compromise on the most substantive and controversial issues. The conference agreement, titled "The Balanced Budget Act of 1995," was approved by the House on November 17 by a party line vote of 237-189. The Senate approved the bill on the same day, 52-47. [Ref. 51] Table 10 presents the budget totals under the Balanced Budget Act.

**Table 10. Budget Totals Under Balanced Budget Act of 1995
(Includes Fiscal Dividend and Tax Cut, \$ Billions).
After Ref. 52**

	1995	1996	1997	1998	1999	2000	2001	2002
Discre- tionary								
Defense	269	264	266	265	268	272	271	271
Non- defense	277	270	258	253	248	249	246	244
Subtotal	546	534	524	518	516	520	516	515
Manda- tory								
Social Security	333	352	371	391	411	433	456	480
Medicare	178	196	211	220	230	251	271	294
Medicaid	89	97	104	109	113	118	122	127
Other	139	155	157	162	171	181	182	192
Subtotal	739	799	843	881	925	984	1031	1093
Net Interest	233	257	262	261	262	260	254	249
Total Outlays	1518	1590	1629	1660	1703	1764	1801	1857
Reve- nues	1357	1412	1440	1514	1585	1665	1756	1861
Deficit /Surplus	-161	-178	-189	-146	-118	-100	-46	4

2. Troubles for the Bill

Most congressional Democrats strongly oppose the Republican deficit reduction plan as delineated in the Republican reconciliation package. House Minority Leader Richard Gephardt, D-Mo., charged that the Republican plan is “..wrong, it’s morally wrong, it’s the wrong thing for our country” because it slashed programs for the disadvantaged, for the middle class, and for “growing” the economy with aid to education, all to provide tax cuts for the rich. Rep John Dingell (D-Mich.) called it the “worst piece of legislation I’ve seen in 40 years in this body.” [Ref. 40]

A more significant threat to the Republican reconciliation package, however, was President Clinton, who had repeatedly described the Medicare, Medicaid, and EITC cuts as unacceptable. The President opposed the Republican deficit reduction plan because he believes it was based upon unnecessary entitlement cuts detrimental to American citizens. It was almost certain, therefore, that if left unamended the reconciliation package approved by Congress would be vetoed by the President when it reached his desk.

To demonstrate his resolve on these issues, President Clinton vetoed the second congressional Continuing Resolution (CR) on November 13 because it included provisions that limited the continued growth of these entitlements. [Ref. 51] This veto resulted in the partial shutdown of the government, in which over 800,000 “non-essential” federal employees were furloughed pending a settlement between Congress and the President.

The Republicans suggested they would be willing to compromise on these entitlement issues in the second CR as long as

the President agreed to a balanced budget in seven years. [Ref. 53] This provision, however, had been non-negotiable for Clinton, who promised to veto any CR containing such language. President Clinton recommended instead that Congress either consider his own 10-year deficit reduction plan submitted in June, or initiate a total rework of the FY 1996 budget.

3. Compromise Achieved

The President and Congress remained at an impasse over the FY 1996 federal budget for six days. On November 18, however, the White House and Congress agreed on a stop-gap spending measure that reopened the government. This second Continuing Resolution not only provided money to keep the government running at 75 percent of current spending through December 15, but also enabled the return to work of the 800,000 furloughed federal employees. [Ref. 54]

President Clinton accepted the Republicans' goal of balancing the budget in seven years but insisted on language intended to protect his priorities (i.e., Medicare, Medicaid, education and the environment) in long term negotiations. The President also wanted to avoid tax increases on working families and to have CBO consult with the White House budget office and outside experts on the economic assumptions.

The Republicans accepted President Clinton's offer after rewording it (to call for "tax relief" rather than "preventing tax increases," for instance) and to add to the list of protected items

such matters as agriculture and defense. The Republicans also included a provision for the overhaul of welfare programs. [Ref. 54]

VIII. CONCLUSION

Despite skepticism expressed by many economists, students of the federal budget, the media, and the executive branch, the Republican-led 104th Congress accomplished many of the budget objectives it had delineated in its "Contract with America" in February, 1995. Congress developed and passed a federal budget plan that not only eliminated the deficit by 2002, but that also increased defense spending, cut taxes, and left Social Security intact.

However, the Republicans are only half-way to fulfilling their ultimate goal of a \$0 deficit, for their plan must be approved by the President in order to become law, a very unlikely event at the present time. Although Congress could override an executive veto with a two-thirds majority vote in order to pass the Republican plan, this event is equally unlikely.

The FY 1996 federal budget process has included a series of often inter-related federal budget "firsts" that has distinguished it from most, if not all, of the previous federal budgets. In addition to being the first Republican-led Congress in over 40 years, this year's budget process has many times created unusual divisions within Congress. There have been splits along House and Senate lines, between conservatives and moderates, and between an influential freshmen class and senior representatives.

This chapter concludes this study by evaluating the distinguishing characteristics of the FY 1996 budget debate. The first part of the chapter addresses the impact the budget process has had on the defense budget. The second section assesses the

opportunities and obstacles that confronted the Republicans throughout the budget process, and also briefly discusses the role of party and election year politics in this year's budget debate.

A. THE DEFENSE BUDGET

The FY 1996 defense budget, like most other aspects of this year's budget debate, has been plagued by controversy primarily centered around funding levels and social issues.

Congress disregarded the Clinton administration's insistence that \$236 billion was sufficient to meet the DoD FY 1996 requirements, and instead recommended \$243 billion in defense appropriations budget authority for FY 1996, \$7 billion more than the Clinton proposal. The bulk of this increase was added to the DoD Procurement and Operation and Maintenance (O&M) accounts to bolster weapon system modernization and military "readiness," funding levels for which were considered by House Republicans as critically deficient. Additionally, Congress recommended certain "non-traditional" defense spending programs supported by Clinton, such as the Defense Technology Program and aid to Russia, be cut.

Although the \$243 billion is approximately \$2 billion less than FY 1995 defense budget authority, the Republican seven-year deficit reduction plan represents an increase of more than \$50 billion over the Clinton proposal. In this regard, it can be argued the House Republicans honored their promise made in the "Contract" of "restoring" defense funds.

However, the Republicans do not plan for the defense budget is to increase throughout the duration of the their seven-year plan.

Although the budget resolution directs an increase in defense funding for years 1996 and 1997, it caps the total defense budget at approximately \$270 billion between 1998 and 2002. [Ref. 17] Furthermore, the FY 1996 defense appropriations bill will most likely face a veto by the President. To overcome that veto, the Republicans may have to reduce the total level of funding for defense.

Additionally, recall that the initial defense appropriations conference report was rejected in the House, largely as a result of Republican member dissatisfaction with a provision involving a social, rather than military issue, i.e., abortion. Despite the recent optimism expressed by the Republican leadership about increased defense spending, it is apparent that the defense budget will continue to be constrained by economic and social forces for years to come.

B. REPUBLICAN STRENGTHS

The Republicans were able to make good on their widely discounted campaign rhetoric in the fall of 1994 and produced a plausible deficit reduction plan largely as a result of strong leadership and their adherence to a focused agenda. Some of the factors that enabled the Republicans to achieve this goal are reviewed below.

1. Leadership

The Republican leadership's motivation and inspiration at the beginning of the budget process were largely responsible for a deficit eliminating reconciliation package that was passed in mid-November. The fact that the leadership insisted on a zero deficit from the beginning, instead of settling for a major cut, proved critical for Congress, for it helped transform a mere budget debate into a "quest." "We have a crusade attitude," explained House Budget Chairmen John Kasich (R-Oh) [Ref. 49]

The Republican leadership was also very disciplined and effective, especially towards the end of the budget process, in ensuring passage of the reconciliation package. In mid-October it had established a "bicameral budget steering group" composed of the top four GOP leaders and the Chairmen of the Appropriations, Budget, and tax-writing committees in both chambers. The group was formed to maintain Republican solidarity and to ensure that all Republicans completed their assigned tasks. Such a power-sharing steering group is a rarity in Congress, where authority has traditionally been centralized among party leaders of the two chambers. [Ref. 55]

2. Focus

The Republican leadership changed the political dynamics to put the Democrats on the defensive during the budget process. President Clinton's initial budget proposal offered no serious deficit reduction, but instead inspired the Republicans to make good on campaign promises that most administration officials believed the

GOP could not fulfill. The more the Republicans progressed toward fulfilling their goal of developing a seven-year zero deficit budget plan, the less comfortable the Democrats became. By June even the most liberal Democrats conceded that the fundamental issue was balancing the budget, prompting President Clinton to offer his own 10-year balanced-budget plan shortly thereafter.

C. OBSTACLES

Despite the strong leadership and shared sense of mission and purpose, the Republicans were not without their difficulties during the budget process. Independent and stubborn freshmen, ineffective defense authorizing committees, procedural irregularities, and unusual alliances all represented unanticipated obstacles that the Republican leadership had to overcome in order to successfully complete its agenda.

1. Freshman Class

Only one spending bill, military construction (PL 104-32) had become law by October 14, two weeks into the new fiscal year. [Ref. 56] Many of the spending bills have yet to be approved at the time of this writing because of intra-party disputes among House Republicans, particularly the younger, more conservative freshman, who have been unwilling to compromise with more moderate members on ideological grounds. For example, the defense appropriations conference report was rejected in the House largely as a result of opposition to the bill's abortion provision by freshman members.

The Freshman class has been able to exert remarkable political influence upon the Republican leadership. This clout was most apparent in the case of freshman Rep. Mark Neumann, R-Wis., who was fired from the House National Security Subcommittee on Appropriations in late September presumably for voting against the committee's defense spending bill. The majority of the freshman class, angered by the way with which Neumann was treated, immediately rallied to his support, and threatened to hold up passage of an Agricultural appropriations bill if the situation was not rectified by the House Speaker. By the end of the next day Rep. Neumann was given a prized seat on the House Budget Committee. [Ref. 57]

2. Inability to Agree

Also embarrassing for the Republicans was the defense authorizing conferees' inability to reach an agreement after over two months of deliberation (conference began the week of September 11). Ironically, this impasse among the authorizers comes during the first year of control of both congressional chambers by a Republican party that has long prided itself on defense and is eager to add more money to defense than was requested by President Clinton.

Without an authorization bill, Congress has been left without a definitive stand in critical defense policy areas, to include missile defense, participation in U.N. peacekeeping, and U.S. aid to Russia. Instead, the House and Senate have been forced to construct and pass individual appropriations and reconciliation packages without policy

guidance from the defense authorizers. This calls into question the significance and relevance of the Senate Armed Services Committee and House National Security Committee, which traditionally have been influential in determining the U.S. defense policy and shaping the force structure. [Ref. 37]

3. Procedural Irregularities

The Republicans initially proceeded outside the regular budget process to comply with their contract and develop a realistic deficit reduction plan. Specifically, House Budget Chairman John Kasich, R-Oh., recommended early in the budget process (March) to use discretionary spending cuts to offset tax cuts. This was a clear violation of budget law, which required that tax cuts be offset only with tax increases or cuts in entitlement programs. To avoid a fight over budget rules, the Republicans managed to approve procedural changes that lowered and extended the caps on discretionary spending. [Ref. 58]

4. Unusual Alliances

This year's budget process was also distinguished by cross-party alliances in Congress. Although such alliances are not uncommon, the identities of some of their members were surprising. Budget Chairman Kasich, one of the more outspoken leaders of the "Republican Revolution," teamed with Rep. Ronald Dellums, Calif., the senior Democrat on the National Security Committee, to draft an amendment to the House defense authorization bill that would have deleted funding for B-2 bomber construction. While Kasich was

concerned about the financial impact the B-2 program would have on the defense budget in the out years, Dellums opposed the funding on strictly ideological grounds, arguing that more money was needed for social domestic programs, not for defense. [Ref. 34]

D. ELECTION-YEAR POLITICS

The FY 1996 budget debate has been unusual in that it is occurring before a presidential election year. The current stand-off between the congressional leadership and the President demonstrates the significant influence these preliminary election politics are having over the FY 1996 budget debate.

President Clinton, seeking reelection in 1996, desires to appear as a decisive leader, determined to protect certain programs and priorities (Medicare, Medicaid, education, and environmental protection) that are apparently threatened by the Republican budget. However, there is only a \$78 billion difference between the Republican Medicare spending proposal and the President's. [Ref. 59] This \$78 billion represents only \$10 billion a year over a seven year period - "budget dust" when considered in the context of the entire budget.

Senate Majority Leader Robert Dole, R-Ka., is currently the Republican front-runner for the presidential elections. Speaker-of-the-House Newt Gingrich, R-Ga., has not completely ruled out the possibility of running against Dole for the Republican nomination. It is essential for both these individuals, therefore, to push through their seven-year deficit reduction plan in order to bolster their political images before the commencement of active campaigning.

Additionally, such a victory would strike a blow to the President's credibility and confidence as a leader.

Additionally, the pre-election competition between the Republican leaders and the President has infiltrated the FY 1996 budget debate in the form of often petty personal attacks. Speaker Gingrich accused President Clinton of forcing him to sit in the rear of Air Force One during a flight to Israel for the funeral of Prime Minister Rabin so as to avoid discussing the budget. Gingrich claims that this incident was in part the cause for Congress presenting the President with a stiff second continuing resolution. (As a form of apology to the Gingrich, the President's staff sent the Speaker's office a box of Air Force One M&M candies). [Ref. 60]

The 104th Congress did indeed produce a plan that balanced the budget within seven years and increased defense spending above the President's proposed budget while cutting health and welfare entitlements and taxes. However, if left unamended, it is almost certain to be vetoed by the President. This year's budget debate, more than any other, represents a case study of the extent to which legislative, economic, political, and social dynamics can impact the federal budget process.

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